

CONFIDENTIAL

10147

NPIC/TDS-204/67
3 November 1967

MEMORANDUM FOR: Chief, Support Staff

SUBJECT : Notification of [] of Non-Acceptability
of Two of our Overrun Proposals

1. I have attached basic information providing the background for the overrun condition of two [] contracts: the Vu-graph Maker and the P.I. Print Enlarger.

2. [] has proposed that the Office of Logistics prepare a letter to [] top management informing them of the conditions leading to the overrun of the two contracts and that they absorb most of the overrun within their corporation. An outline of a format in presenting this information has also been furnished.

Colonel, USAF

Assistant for Technical Development, NPIC

Distribution:

Orig & 1 - NPIC/C/SS
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3 Nov 67	SEC. CL.	C	[]	CONTROL NO.	NPIC/TDS-204/67
DATE OF DOC	DATE REC'D	DATE OUT	SUSPENSE DATE	CROSS REFERENCE OR POINT OF FILING	
TO: Chief, Support Staff				ROUTING	DATE SENT
FROM: []				A/TD	
SUBJ: Notification of [] of Non-Acceptability of Two of our Overrun Proposals				Fwd	
Distribution:					
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COURIER NO.	ANSWERED	NO REPLY			4

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downgrading and
declassification

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AVAILABLE

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OVERRUN CONDITION OF THE VUGRAPH MAKER AND P.I. PRINT ENLARGER

25X1
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25X1
1. The Projects for the Viewgraph Maker and the PI Print Enlarger are presently under separate contracts with the [] predicts that both of these contracts will require about a 50% overrun to complete. The Government is seriously concerned about the magnitude of these overruns and the fact that they were not anticipated sooner. It is hoped that [] will carefully examine its performance on these contracts to determine if they are representative of the standards by which [] is to be judged.

2. Significant historical data for each project is provided below. Comments are included to emphasize certain aspects of cited documents or events.

25X1
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3. At this time, the Government can find no gross technical deficiencies in the basic concept of the equipment being furnished under the subject contracts; although a thorough evaluation of technical performance must of course, rest on the acceptability of the delivered items. However, the target costs of the contracts have already been reached and [] estimates considerable design and engineering effort yet to be carried out. This, and comments from [] July monthly report for the PI Print Enlarger (Statement A.3. - "Redesign was effected in a number of major areas."), suggest that technical performance was open to some criticism.

25X1
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25X1
4. The most disturbing aspect of [] performance rests in its inability to predict costs either before or after contract negotiations. The Government puts great trust in a contractor's ability to accurately account for past costs and to predict future costs with a reasonable degree of accuracy. [] proposals stressed its ability to accomplish such controls and the contract was awarded relying on [] intent to do so. When the contractor grossly underestimates his future efforts, he creates administrative delays that prolong the completion of the project. He may also disturb the Government's R&D budget to such an extent that other projects are jeopardized. In the two projects under discussion, [] consistently predicted via its monthly reports that the projects were in no financial difficulty. [] last monthly reports were delayed, but verbal contacts with [] project managers predicted no overruns. When [] suddenly predicted a 50% overrun on the PI Print Enlarger, the Government was immediately concerned about the financial status of the Viewgraph Maker. However, two [] personnel reported that the latter project would not have an overrun. Within two weeks, this statement was contradicted by the same personnel and a 50% overrun was estimated.

25X1
25X1
5. [] submitted independent proposals for the PI Print Enlarger and for the Viewgraph Maker. The contracts were negotiated and signed at different times. [] should have estimated its target costs on the basis

25X1 that only one contract would be signed. Since both contracts were let, and since both projects had considerable common technology, design, and even component parts, [] should have been in a position to exploit these commonalities to the financial benefit of itself and the Government.

25X1 6. The [] Directorate concerned has informed the Government's Contracting Officer that it will not accept its estimated total costs to complete the projects as a ceiling price. Therefore, the Government is confronted with an uncertain total cost for either project and cannot assess the cost effectiveness of the equipment.

25X1 7. Due to the magnitude of the estimated overruns and because of [] uncertainty of these overruns, the Government could decide to terminate these contracts. This would mean that the Government would have spent a considerable amount of money and received virtually nothing for it. The Government should request that [] review both projects and suggest any alternative courses of action that would be of more advantage to the Government []

25X

HISTORICAL DATA FOR PROJECT #10197, VIEWGRAPH MAKER CONTRACT []
[] PROJECT 9619

25X

4 November 1966. [] submitted Technical Proposal, []
(dated 2 November 1966). Total price quoted for two units was
[] Of particular interest is section 5.2.3 of the pro-
posal describing computerized PERT controls to predict costs and
time periods for the completion of programs.

25X

17 March 1967. [] reported an increase in overhead and G&A rates and
quoted a fixed price of [] for two units.

13 April 1967. Contract [] was executed with a target cost
and target fee totalling [] The only amendment to []
proposal was the inclusion of ground glass port for viewing the
image plane. This contract was a cost-plus-incentive-fee type. The
period of performance was to be from 13 April 1967 to 14 August 1967.
The fee was subject to an 80-20 share on all costs over or under target
costs.

25X

21 April 1967. The Contracting Officer's technical representatives,
[] and discussed the project
with [] The designers expressed some concern
about the adequacy of the 10-15 Platemaster in accomplishing the task.
They decided to use an 11-17 Platemaster as a basic framework for the
Viewgraph Maker.

8 May 1967. [] Layout Study J92208-115703 was completed. At this point
areas requiring extensive design effort should have been identified.

12 May 1967. [] to discuss
the project. [] revealed no serious technical
problems to be overcome.

25X

31 May 1967. [] sent its first monthly report. Some parts had already
been ordered. Total costs were predicted to be exactly the target
costs of the contract.

23 June 1967. [] sent its second monthly report. This report covered the
period of 1 to 31 May. Some parts were received. Intended progress
during the next month (June) predicted the completion of "...all
design efforts." (emphasis added) and "Release all items for procurement."
(emphasis added). No increase in costs were predicted.

24 July 1967. [] sent its third monthly report. This report covered the
period of 1 to 30 June. Intended progress during the next month again
predicted completion of all design, drafting and procurement. No increase in
costs were predicted.

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25X1 11 August 1967. [] to discuss an overrun on another contract (PI Print Enlarger). [] was on vacation, but [] specifically questioned [] as to the status of funds for the Viewgraph Maker project. He assured [] did not anticipate an overrun on Contract []

25X1 15 August 1967. [] was called by [] and information was requested concerning the status of the funds. [] stated that he did not see any financial difficulties and in fact, thought that he could possibly complete the project for less than the target costs.

25X1 24 August 1967. [] and informed him of an anticipated overrun of about [] was reminded to check the details of the contract to determine his company's obligation in spending more than target costs. This was the first indication of an overrun status.

25X1 14 September 1967. [] delivered the fourth monthly report covering the period of 1 to 31 July (it did not predict any increased costs) On this same date, [] discussed the contract with the Government's Contracting Officer and his technical representative and a Government auditor. A cost analysis was presented by [] which estimated that an additional [] was needed for the completion of the project.

25X1 27 September 1967. Government personnel visited [] to discuss the project. [] presented an analysis of the Viewgraph Maker. He discussed technical areas where design problems had occurred. However, these problems had not been relayed to the Government previously nor did the monthly reports indicate any difficulties. Statements were made in all monthly reports that there were no unresolved technical matters. [] was requested to absorb their overrun costs and propose costs again.

25X1 12 October 1967. [] delivered a revised analysis of costs proposal for the Viewgraph Maker.

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HISTORICAL DATA FOR PROJECT #10147, PI Print Enlarger Contract []

[] Project 9618

8 September 1966. [] submitted Technical Proposal []

Total price quoted was [] based on a fixed price contract.

January 1967. [] reported an increase in overhead and G&A rates and quoted a fixed price of []

27 February 1967. Contract [] was executed with a target cost, and target fee totalling [] Included were seven items as an addendum to the Contractor's proposal. This contract was a cost-plus-incentive-fee type. The period of performance was to be from 27 February to 27 September 1967. The fee was subject to a 90-10 share on all costs over or under target costs.

13 April 1967. [] submitted its first monthly report for the period of 28 February to 31 March. More than 10% of the work was reported as complete with a proportionate amount of funds being spent.

18 April 1967. By this date, layout drawings 92208-124100, J-124577, and J-124578 were completed by [] At this point, areas requiring extensive design efforts should have been identified.

21 April 1967. The Contracting Officer's technical representative, [] [] to discuss the project with [] Many technical details were discussed but [] expressed no concern over the difficulty of their solution.

12 May 1967. [] again visited [] reported on his progress on the PI Print Enlarger. Technical areas were again discussed.

12 May 1967. [] second monthly report was sent covering the month of April. Design of the condenser lenses was reported about 90% complete. Drive design was 50% complete, frame 100%, vacuum platen 90%, paper transport 50%. [] requested revision of exposure time from "less than one second" to "five to two second range."

20 June 1967. The Third monthly report was sent covering the month of May. Condenser lens design was reported as complete. Electrical parts were being ordered. Circuit drawings were being prepared.

July 1967. [] informed [] that the June monthly report was nearly complete, but that there was a delay by the accounting department in completing the status of funds. [] gave no indication at this time that there would be any overrun.

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25X1 Week of 24 July 1967. [] called to report an anticipated
25X1 overrun of approximately [] This was the first indication of an
overrun status.

25X1 11 August 1967. [] visited [] 25X
25X1 [] intent was to review every drawing, if necessary to
determine where costs might be reduced. However, nearly all of the
design was reported as complete and most the parts were ordered.

25X1 14 September 1967. [] delivered a cost analysis
to the Government. An overrun of [] was predicted. One of the 25X
items reported as contributing to the overrun was the cost of the 25X
condenser assembly. It was estimated as [] while the actual price
was [] Why this could not have been predicted three or four
25X1 months sooner was not explained. The July and August monthly reports
were also delivered at this time.

25X1 27 September 1967. Government personnel visited [] to discuss the 25X
project. [] presented several reasons for the PI Print 25X
Enlarger overrun. However, the reasons indicated were under []
control for several months. If the overruns could not have been
prevented, they should have been obvious before the contract was
25X1 negotiated. [] was requested to absorb their overrun costs and
present a new cost proposal.

25X1 12 October 1967. [] delivered a revised analysis of costs
for the project. Included in this analysis was a copy of the third
monthly report. Page 5 of that report indicates that there was a
25X1 [] overrun estimated on 26 May. This information has been changed
and does not agree with the third monthly report previously delivered
to the Government. The latter report had predicted no overrun. The
analysis also indicated 600 hours of engineering, design, and drafting
to be completed. This information does not conform with information
gathered at the 11 August meeting.

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Format to Contain Comments On:

1. Past business with
2. Future business with
3. Existing contracts
4. Trouble contracts (Vu-graph Maker & P.I. Pring Enlarger)
 - a. Nature of trouble
 - (1) Changes in technical aspects w/o government approval
 - (2) Administrative errors
 - a. Untimely reporting
 - b. Altered reporting
 - c. Unanticipated costs
 - b. Nature of claims
 - (1) Before contract changes
 - (2) Unapproved alterations
5. Cite our detailed records of these deficiencies.
6. The requirement for continuously improving management
7. The recommendation they assume liability for their poor performance
8. Implication of these problems in relation to the Automatic Stereo Scanner contract; we would expect that would assure us that this project would proceed according to contract.

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ROUTING AND RECORD SHEET

SUBJECT: (Optional) Request for Overrun Expenditure of [] for a Viewgraph Maker

FROM: Asst. for Technical Development

EXTENSION

NO. NPIC/TDS-195/67

DATE 26 October 1967

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

RECEIVED FORWARDED

1.

Ch/Support Staff

3000
67

7

2.

Asst. for Planning and Management

3.

Technical Advisor to the Director

4.

Director, NPIC

5.

SS/LB

(After Approval)

6.

7.

8.

9.

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11.

12.

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